

**REPORT OF THE AUDIT OF THE
HARLAN COUNTY
SHERIFF'S SETTLEMENT - 2010 UNMINED COAL TAXES**

**For The Period
September 16, 2010 Through July 15, 2011**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HARLAN COUNTY SHERIFF'S SETTLEMENT – 2010 UNMINED COAL TAXES

**For The Period
September 16, 2010 Through July 15, 2011**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement – 2010 Unmined Coal Taxes for the Harlan County Sheriff for the period September 16, 2010 through July 15, 2011. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,328,784 for the districts for 2010 Unmined Coal taxes, retaining commissions of \$96,731 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,231,958 to the districts for 2010 Unmined Coal taxes. Taxes of \$95 are due to the districts from the Sheriff.

Report Comment:

2010-01 The Sheriff Should Not Pay Disbursements Unless Sufficient Funds Are Available

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
SHERIFF’S SETTLEMENT – 2010 UNMINED COAL TAXES	3
NOTES TO FINANCIAL STATEMENT	4
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9
COMMENT AND RECOMMENDATION	13



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Independent Auditor's Report

We have audited the Harlan County Sheriff's Settlement – 2010 Unmined Coal Taxes for the period September 16, 2010 through July 15, 2011. This tax settlement is the responsibility of the Harlan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Harlan County Sheriff's taxes charged, credited, and paid for the period September 16, 2010 through July 15, 2011, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2011 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation included herein, which discusses the following report comment:

2010-01 The Sheriff Should Not Pay Disbursements Unless Sufficient Funds Are Available

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

December 5, 2011

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
SHERIFF'S SETTLEMENT – 2010 UNMINED COAL TAXES

For The Period September 16, 2010 Through July 15, 2011

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Unmined Coal - 2010 Taxes	758,970	436,055	928,672	287,560
Penalties	2,018	1,159	2,472	764
Gross Chargeable to Sheriff	760,988	437,214	931,144	288,324
<u>Credits</u>				
Exonerations	10,488	6,026	12,833	3,974
Discounts	13,873	7,966	16,990	5,255
Delinquents:				
Real Estate	3,614	2,076	4,422	1,369
Total Credits	27,975	16,068	34,245	10,598
Taxes Collected	733,013	421,146	896,899	277,726
Less: Commissions *	31,153	17,899	35,876	11,803
Taxes Due	701,860	403,247	861,023	265,923
Taxes Paid	701,819	403,247	860,969	265,923
Due Districts				
as of Completion of Audit	\$ 41	\$ 0	\$ 54	\$ 0

* Commissions:

4.25% on \$ 1,431,885

4% on \$ 896,899

The accompanying notes are an integral part of this financial statement.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT

July 15, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Harlan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

HARLAN COUNTY
NOTES TO FINANCIAL STATEMENT
July 15, 2011
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Harlan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 15, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period – Unmined Coal Taxes

The real and personal property tax assessments were levied as of January 1, 2010. Property taxes were billed to finance governmental service. Liens are effective when the tax bills become delinquent. The collection period for 2010 Unmined Coal taxes was September 16, 2010 through July 15, 2011.

Note 4. Interest Income

The Harlan County Sheriff earned \$176 as interest income on 2010 Unmined Coal taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of December 5, 2011, the Sheriff owed \$65 in interest to the school district and \$111 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Harlan County Sheriff collected \$42 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office. As of December 5, 2011, the Sheriff owed \$42 in 10% add-on fees to his fee account.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Joseph A. Grieshop, Harlan County Judge/Executive
Honorable Marvin J. Lipfird, Harlan County Sheriff
Members of the Harlan County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Harlan County Sheriff's Settlement – 2010 Unmined Coal Taxes for the period September 16, 2010 through July 15, 2011, and have issued our report thereon dated December 5, 2011. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Harlan County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Harlan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Harlan County Sheriff's Settlement - 2010 Unmined Coal Taxes for the period September 16, 2010 through July 15, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation as item 2010-01.

The Harlan County Sheriff's response to the finding identified in our audit is described in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Harlan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen
Auditor of Public Accounts

December 5, 2011

COMMENT AND RECOMMENDATION

HARLAN COUNTY
MARVIN J. LIPFIRD, SHERIFF
COMMENT AND RECOMMENDATION

For The Period September 16, 2010 Through July 15, 2011

COMPLIANCE AND OTHER MATTERS:

2010-01 The Sheriff Should Not Pay Disbursements Unless Sufficient Funds Are Available

While performing the unmined coal tax audit, we noted that the Sheriff overpaid distributions to the County School for March collections, creating a negative balance of (\$48,014) in the tax account. As a result, the Sheriff incurred \$138 in fees for insufficient funds. We recommend the Sheriff collect the \$138 in fees as a reimbursement from the bank or from personal funds. In the future, the Sheriff should distribute amounts due properly and not pay disbursements unless there are sufficient funds available.

Sheriff's Response: These matters have been corrected.

